

## The Impact of E-Commerce for Taxation

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**Abstract:** This article examined the various taxation principles that are crucial for the ecommerce taxation platforms. In addition, the paper has examined the challenges and the issues that arise during the implementing of taxation on the e-commerce platforms. The paper has discovered that there are still some hindrances in the existing taxation systems, which are not flexible enough to exercise the countries sovereignty duo to the massive use of e-commerce tunnels. However, the paper also establishes that it is very possible to tax the physical commodities that are handled using the digital platform. This however requires the application of the principles of the OECD MTC, which provide the necessary guidelines for tax to be enforced to some given business entities. Additionally, the paper examines the various cases surrounding taxation of business entities and the corresponding revenue margins attainable by the most effective tax regimes in the world. The disparities are analyzed and thus discovered that the e-commerce platform plays a very significant role in the volumes of trade activities that make up the revenue for any given country. In addition, the article briefly looks at the interventions by different bodies such as the European Union and the influences these organization have had in the e-commerce platforms. It is worth establishing that the European Union, The United Nations and other international bodies and countries miss on the accurate values of revenue redistributions and losses in some instances. This clearly indicates that the dimensions of the e-commerce platform is not yet determinable accurately but can only be estimated to provide some vital stochastic predictions for the future.

**Keywords:** E-Commerce; Taxation; OECD MTC.

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### 1. Introduction

The electronic commerce market is known as having exhibitions of an out of ordinary market and established on concrete sophisticated digital technologies. Since the emergence of the trade, tremendous changes have been observed in the economy of China regarding its taxation policies, the taxation methods and the taxation structures. The development and firm establishment of the trade for full adoption into the economy is still in its initial if not medieval stages and thus a substantial analysis of the function and the trending status of the business in china will be of great importance for its development<sup>1</sup>. Moreover, analysis of the current situation is crucial to the formulation of suitable taxation policies. As observed in the recent years, the emergence of e-commerce has played an indisputable role in the refashioning of the business models by all domestic businesses<sup>2</sup>. Therefore, e-commerce remains an inexorable trend when it comes to China's taxation system and the establishment of future businesses. Hence, only firm tax policies can establish the foundation for the future of ecommerce in China<sup>3</sup>.

In relation to the existing situation of the electronic business in the country, the government has adopted the following principles. The first principle embraced is that of tax neutrality, which establishes that the tax system would not have any influence on the choice between e-commerce and traditional business but would however support the establishment of hi-tech. e-commerce has also influenced the adoption of the impartial tax burden principle in which it emphasizes that the e-commerce taxation policy should conform to the international policies but not marred by tax jurisdiction irregularities such as double taxation. Also, the principle advocates for equitable taxation. The other principle that sums up is the favorable suitable policy that champions for setting up temporary light taxation policies<sup>4</sup>. The policy is focused on the establishment and promotion of the

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<sup>1</sup>Also view Lv, A. and Luo, T., 2018. Authoritarian Practices in the Digital Age| Asymmetrical Power Between Internet Giants and Users in China. *International Journal of Communication*, 12, p.19.

<sup>2</sup>孙煜, 孙军 and 陈柳, 2018. 房地产业扩张对我国产业结构影响的实证分析. *江苏社会科学*, 4, p.009.

<sup>3</sup> Also view <http://www.tradeforum.org/Business-Guide-to-the-World-Trading-System/>

<sup>4</sup>Nishimura, Shogo. "The Research on Transition of the PE from Traditional Concept to the New Concept: Over the Avoidance of International Double Taxation" *Business and accounting research* 3 (2014): 49-56.

ecommerce businesses in China so as to trigger the growth of the relevant industries in the economy and create new tax pools for the government.

The establishment of the golden projects in the earlier years greatly improved the taxation of the e-commerce businesses and enhancement of computer networks for the taxation purposes. The value added systems have been so far being established in various provinces in China, which has seen a smoothening of the taxation process. However, network and the information infrastructures are still underdeveloped when compared to the growth rate needs of the ecommerce businesses. The estimations from the previous years starting from 2008 indicate that the tax exemptions for the e-commerce platform were only 0.04% and only occupied as little as 0.025% of the fiscal income of the country. Therefore, it becomes obvious that the influence of the e-commerce business in the taxation system in China is greater than a potential one.

The growth rate of the e-commerce platform has initially influenced the government to adopt some favorable policies for its support. The following reasons justify the government's step to embrace such policies. First, e-commerce is a high tech business that has the capacity to positively influence the growth of other businesses in the industry. Second, China has many contributors of income tax and fiscal income and, thus favorable income policies towards e-commerce businesses and, would not result to any disastrous effects to the economy. Third, the impacts of electronic businesses are far reaching and thus, it is evident that, the platform is characterized by rapidity, cost saving and information concentration<sup>5</sup>. In China, the implications of the e-commerce include the invalidation of the country's traditional policies, the conflict in the jurisdiction of tax and thus call for China to modify her tax policies carefully.

## 2. Government Source of Revenues

Taxes are the most vital source of income for the government of China. Hence, as the most essential source for the nation's fiscal revenue, tax makes a key component of the macro-economic structures. The tax revenue in China rose to approximately 11.04 trillion Yuan by the year 2013, which was about a 10% increase from the previous year. The World Bank in 2017 approximated China to have a total corporation's tax of 68% resulting from both indirect and direct tax<sup>6</sup>.

However, the issues surrounding taxation at the international level revolve around two concepts that result to double taxation. The two major concepts are the residence and source concepts and both arise from provisions in the domestic laws on taxation in order to differentiate between resident and the non-resident taxpayers<sup>7</sup>. Most states enact tax in regard to the source or the residence and also. The brusque norm for the international taxation law provided in Article 53 by the Vienna Convention is universally recognized and accepted by all the states and thus can only be modified by a subsequent norm that is also internationally known. Moreover, all the citizens of a given state are supposed to be imposed taxes regardless of their places of residence, domicile or management purposes<sup>8</sup>. However, this implication falls short of any individual who is subject to tax remittance to the respective state in regards to the overall sources found in the respective capital or state located therein.

There are however two national entitlements that are universally recognized in regard to income tax. The foremost category is referred to as the limited liability to tax in which the connection of the respective country with the taxpayers is limited. However, the income that these taxpayers generate will thus be economically to the state. Therefore, the country and China in particular levy taxes in respect to income that is generated by these taxpayers, income whose source is in the country in question, and it is known as source taxation. The second category is the unlimited liability to the residents in which the taxpayers have a close economic and personal link with the state. This taxation on the worldwide income of an individual is referred to as worldwide taxation<sup>9</sup>.

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<sup>5</sup>孙煜, 孙军 and 陈柳, 2018. 房地产业扩张对我国产业结构影响的实证分析. *江苏社会科学*, 4, p.009.

<sup>6</sup><http://documents.worldbank.org/curated/en/518431497628882418/pdf/116350-WP-v1-P146472-PUBLIC-JUNE21-6am-ZIMPER-Volume-1.pdf>

<sup>7</sup>Wu, Y.H., 2017. Unwise Integration of the Foreign Account Tax Compliance Act into the Common Reporting Standard-Taking Taiwan as an Example. *Int'l Comp., Policy & Ethics L. Rev.*, 1, p.565.

<sup>8</sup>Biggs, C., Chande, A., Chen, L., Matthews, E., Mercier, P., Wang, A. and Zou, L., 2018. The Chinese Consumer's Online Journey from Discovery to Purchase. Retrieved 10th April.

<sup>9</sup>Markle, K., 2016. A comparison of the taxmotivated income shifting of multinationals in territorial and worldwide countries. *Contemporary Accounting Research*,(2016), 33(1), pp.7-43.

### **3. Source and Residence Tax Jurisdictions**

The first and foremost principle in respect to taxation is that income of an individual can be derived from the properties and economic activities that he/she is associated in. In regard to the residence jurisdiction, taxation on the income of a person is done following the law on taxation due to the nexus that exists between the individual state and the person generating the income under consideration, this is irrespective of the source or place where the income in question is derived from<sup>10</sup>. Under the individuals' source jurisdiction, the income may be taxed following the state's law due to the existing nexus between the activities undertaken to realize the income and the country, without citing the taxpayers' residence<sup>11</sup>.

Most jurisdictions or countries embrace both the source and residence concepts in their taxation systems in which China and USA are the leading examples. However, some jurisdictions doubt the residence concept and thus embrace the source tax concept such as Macau and Hong Kong. The residents are granted claim credit for all forms of foreign income realized, but the individuals who are not residents are not entitled. Jurisdictions such as British Virgin Island (BVI) and the Cayman Islands do not subject the income for residents to tax. Hence, the companies that operate in such jurisdictions are subjected to residence for the purpose of taxation. There emerges some conflict in the taxation of the income since it is liable to both source and residence jurisdictions<sup>12</sup>. The source jurisdiction in most cases takes precedence rather than the residence jurisdiction. In most cases of the bilateral double taxation agreements, the tax right is allotted in favor of the source country.

### **4. Juridical Double Taxation**

Juridical double taxation refers to circumstances where a taxpayer is subject to tax on the same income (or capital) in more than one jurisdiction. For example, a resident of Canada who is also considered to be a resident of the United States would be potentially subject to concurrent full taxation in both countries. Bilateral tax treaties generally tend to eliminate (or at least reduce) the possibility of juridical double taxation<sup>13</sup>. Thus, double taxation results to devastating effects on the movement of a country's goods and services of technology, persons and capital<sup>14</sup>.

### **5. Conflicts That Can Cause Juridical Double Taxation**

Cross-border activities or transactions may trigger tax liability in two or more jurisdictions. In order to mitigate the financial burden resulting from these situations, States have entered into numerous double taxation conventions, which provide for rules that allocate the taxing rights between the contracting states<sup>15</sup>.

The first conflict that can result to juridical double taxation is the source-source dispute. This type of conflict results in the cases where two nations refer to their domestic laws on taxation in which both refer to the same taxpayer's income source. When each individual state feels that it is entitled to the subjection of the income by the individual to tax realized from their disputed sources, they person suffers the burden of taxation twice.

The other conflict is the residence-residence tax dispute in which the respective countries claim residence for the taxpayer in regard to their domestic tax policies. These are situations in which the taxpayer in question is known as a dual resident and the countries thus claim their right to tax the individuals' worldwide income in this case. Therefore, the taxpayer then suffers the impact of the tax twice.

Moreover, there is the residence source conflict in which it is the most common tax dispute that arises when one country claims to have the right to impose tax on the profits as the source country of the income generated and also the other country as the residence for the taxpayer.

Some states impose tax on individual's income based on the domestic source of the income whereas some will rely on worldwide income whereas some combine the two approaches but the last concept would usually result to double taxation. The classical taxation system is the origin of the dividend taxation in which the company's profits end up being taxed twice; at the stakeholders and companies level. Taxation at the stakeholder's level occurs when profits realized after computation of the tax liable is distributed to the

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<sup>10</sup>Atwood, T.J., Drake, M.S., Myers, J.N. and Myers, L.A., 2012. Home country tax system characteristics and corporate tax avoidance: International evidence. *The Accounting Review*, 87(6), pp.1831-1860.

<sup>11</sup>Alm, J., McClelland, G.H. and Schulze, W.D., 1992. Why do people pay taxes?. *Journal of public Economics*, 48(1), pp.21-38.

<sup>12</sup>Miller, A. and Oats, L., 2016. *Principles of international taxation*. Bloomsbury Publishing, 912pp.

<sup>13</sup>[https://www.irwinlaw.com/cold/juridical\\_double\\_taxation](https://www.irwinlaw.com/cold/juridical_double_taxation)

<sup>14</sup>Lang, Michael. *Introduction to the law of double taxation conventions*. LindeVerlag GmbH, 2014. 221pp.

<sup>15</sup>Lang, Michael. *Introduction to the law of double taxation conventions*. LindeVerlag GmbH, 2014. 221pp

stakeholders in form of dividends<sup>16</sup>. This illustration therefore implies that individuals who participate in cross border businesses pay twice for the same generated income and these calls for the international policy formulators to design models that will ensure that taxpayers engaged in international tax get taxed once.

However, China has undertaken some assertive perspective when getting into a double tax agreement together with other states. As per the current statistics, there are more than hundred countries that have treaties with the country as compared to the US that has only an approximate of 68 such treaties. However, most of the treaties by America are outdated and also written in regard to the contemporary digital age. This means that most of the treaties by the US are insufficient in dealing with communications and information technologies in the world. However, most of the double taxation agreements by China are deemed to be sophisticated and thus their tax friendliness in the communications and IT industries seems savvy.

The agreements are very crucial when it comes to enshrining the bilateral approaches to many forms of taxation; this includes withholding taxes, corporate and individual forms of income taxation. They are also crucial not only to the companies with some form of presence in more than one country but also to the ones that may lack permanent establishment but have some services that are a based and charged in China's entities.

In the case of trade agreements between China and other countries, the tax and the legal professions are split effectively and for this reason, many countries fail to understand the double tax agreements and this leads to ignorance by these enterprises when establishing foreign investments in China. This state of misunderstanding would easily result to problems when it comes to the process of identifying and utilizing the agreements as well as negotiation with the concerned tax authorities in China. When an investor cannot understand such issues, it results to possible tax overheads that would have otherwise been less experienced<sup>17</sup>.

However, the situation is not beyond control, as firms that have a genuine comprehension of the taxation systems of China from both the tax and the legal points of view are also qualified to retrieve the situation<sup>18</sup>. The associated companies at any level need to keenly observe the benefits those have been negotiated bilaterally and are of benefit if understood.

Despite the drawbacks such as double taxation, there are a lot of associated merits that cross-border businesses can utilize. The government of China only charges 10% as the dividends taxes from the profits that are attributed from overseas, in addition to a 25% corporate tax. However, many agreements in double taxation help in providing a clause that at least reduces the tax for the dividends by 50%. In China, the withholding tax is imposed on fees and on services that have been billed by the respective companies. This application of withholding occurs since the tax profits are free from taxation in the case where the company is non-resident<sup>19</sup>.

The businesses that are interested should observe keenly with the aid of their advocates at the rate that is applicable as per the service. However, in most cases the applicable rate lies between 10 to 20% of the invoice value. The double tax agreements mostly reduce these values by half. The charges that are applied in the case for using a given royalty can be remitted at a rate lower than 10% of the withholding tax that is imposed in China.

Chinese entities that have investments in various parts of the world however can sign various agreements with some other foreign companies which can however be viewed with suspicion in regard to transferring funds between their subsidiaries and their headquarters. It is very essential for a company to notify the domestic tax offices of the need to use double tax agreements together with the business licenses and articles of association. In order to reduce the taxes that a company is liable to pay, it needs permission from the tax authorities from China and also informs their supervisors. The company however needs to present themselves accordingly with the help of a reputable and qualified professional from China. However, the savings gained on tax are deemed to overweigh the cost of the service charged. The structures are sometimes complicated under IP issues, withholding taxes and the services.

The regulations also help in enabling a reasonable and a fair application. It is advisable that for a company to assess whether the services are included in the double taxation agreement. Moreover, the company should examine if the DTA has other benefits like dividend or withholding tax reductions. It is also advisable that the company incorporates the treaty benefits into the pre-incorporation plans and the incorporation articles.

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<sup>16</sup>Benzell, S.G., Kotlikoff, L.J. and LaGarda, G., 2017. *Simulating business cash flow taxation: An illustration based on the "Better Way" corporate tax reform* (No. w23675). National Bureau of Economic Research.

<sup>17</sup>Li, J., 2018. International Taxation in China: A Contextualized Analysis.

<sup>18</sup>Nishimura, Shogo. "The Research on Transition of the PE from Traditional Concept to the New Concept: Over the Avoidance of International Double Taxation" *Business and accounting research* 3 (2014): 49-56

<sup>19</sup><https://www.dlapiper.com/en/uk/insights/publications/2018/01/china-defers-10-percent-withholding-tax-on-dividend-income-reinvested-into-encouraged-industries/>

## **6. Nature of E-Commerce and Taxation**

The administration of ecommerce is still a great challenge and its effectiveness is highly dependent on the respective tax authorities in regard to the extraction of the relevant information resourceful for the taxation process. This process would include the identification and also the verification of the involved activities; the connection between the transactions and the taxpayers and the nature of the transactions. The sophisticated nature of the business sometimes renders the respective authorities some difficulties in acquiring the required tax information and procures the taxes. The taxpayers sometimes vanquish in the cyberspace and as result all the reliable records become very difficult to get and audit trails end up getting obscure<sup>20</sup>.

From the definition of electronic commerce, it was established that the trade includes the employment of the computer networks in order to improve organization's capacity, increase the market share, enhance product delivery, and ameliorate the state of customer service alongside expanding the profitability margin. However, from the study of the business, it emerges that ecommerce is beyond the online interactions with clients but also some other activities such as the establishment of some web pages to enhance the company's public relations. In a summary, ecommerce is characterized by the application of Information technology so as to improve the communication statuses in the organization. This can include connecting with managers, government regulators, customers, the employees, the suppliers and the general public to optimize transactions<sup>21</sup>.

As illustrated earlier in the paper, the taxation of ecommerce is still a great concern for the worldwide tax authorities and agencies. Therefore, taxation on its own presents an intricate and controversial subject, and this explains to the observed international misunderstandings on the issue of ecommerce taxation. The issues that emerge include; the appropriate time for any respective country to subject individuals outside their territories to the tax burden in addition to administrative tax burden, which may be part/wholly electronic. The difference that is encountered in this case is the nature of the jurisdiction to subject individuals to any given tax burden and the jurisdiction to legalize a foreign person to assist in the collection of tax<sup>22</sup>. In technologically developed and global economy, there is a need to have a genuine distinction of these two cases. However, the respective tax authorities should be very cautious when it comes to the imposition of jurisdictional protection and oversight that can otherwise result in dire implications.

There exists several distinctions between Internet and geographical jurisdiction; the first distinction is that the enactment of law using the territorial jurisdiction is not applicable when it comes to the e-commerce platform. Therefore, it is not true that the Internet is marred by lawlessness but rather the enactment of the territorial jurisdiction. There is a concern on whether the territorial jurisdiction by the government avails the right perception basis in regard to the Internet. The development of the ecommerce platform leads to the development of some complex issues that are related to multi-jurisdictional business taxation and the obtaining of property transactions from the same. There are some various trends that have been identified to cause the e-commerce taxation complexity and these trends include but not limited to digital convergence and borderless commerce models.

### **6.1. Borderless Commerce**

The ecommerce is described as being borderless since its transactions have been observed to flow seamlessly across international borders. Therefore, the taxation of these borderless transactions becomes very engaging<sup>23</sup>.

The Internet does not leave any footprints that can help the relevant tax authorities to track these sellers and their buyers' locations and thus the taxation becomes a theory. Millions of tax revenue has been lost as the e-commerce penetrators continue to dig deeper into the governments' jurisdictions as the relevant authorities find it impossible to control this issue.

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<sup>20</sup>Agarwal, J. and Wu, T., 2018. E-Commerce in Emerging Economies: A Multi-theoretical and Multilevel Framework and Global Firm Strategies. In *Emerging Issues in Global Marketing* (pp. 231-253).Springer, Cham.

<sup>21</sup>Dolega, L., Pavlis, M. and Singleton, A., 2016. Estimating attractiveness, hierarchy and catchment area extents for a national set of retail centre agglomerations. *Journal of Retailing and Consumer Services*, 28, pp.78-90

<sup>22</sup>Turban, E., King, D., Lee, J.K., Liang, T.P. and Turban, D.C., 2015. E-commerce: mechanisms, platforms, and tools. In *Electronic Commerce* (pp. 51-99).Springer, Cham.

<sup>23</sup>Turban, E., Outland, J., King, D., Lee, J.K., Liang, T.P. and Turban, D.C., 2017. *Electronic commerce 2018: a managerial and social networks perspective*. Springer.

The fact that the ecommerce business is fast growing and getting more complex in the near future is almost unbearable when looking at the current state of taxation affairs. This calls for governments to get prepared to encounter more sophisticated challenges in meeting the tax enforcement requirements for the ecommerce businesses. This implies that all the players in the ecommerce platform are liable and responsible for adhering to the local taxation system in form of the individuals found in the geographical borders.

The modification of the business environment is getting new form everyday with the distance between the consumers and the producers economically narrowing each and every day<sup>24</sup>. This trend implies that, the traditional business intermediaries will soon be rendered out of business with new markets being developed, new products and models emerging and establishment of deeper relationships between the consumers.

Therefore, it is evident that this spontaneous growth in the ecommerce business will definitely result to jurisdictional disputes over which jurisdiction will effectively fit the task of imposing and reinforcing tax compliance to the fast growing businesses. In Europe, the ecommerce companies that have their root in the region are supposed to comply with the sales tax enacted on the sales made through the Internet.

The boom experienced through the cross-border businesses in China has been described as being 'sweet' most retailers as compared to other countries. The question thus remains how the country will contain the volume that is likely to be experienced during the 'blue oceans' in the near future? The strategies applied to the beyond borders ecommerce transactions will thus require improvement since the future trade structures are also likely to be more complex and can exhibit unpredictable behavior. The Chinese market is already attracting masses across Asia and thus it is likely that the current point-point strategies of expansion will have to be substituted by rather some point-multi strategies.

The Chinese retailers ought to pick up some localization lessons from the Amazon community. These lessons include; the ability to conduct localized operations, establishing analytics that are data driven, nearness to their customers and also smart marketing approaches<sup>25</sup>. Moreover, the Amazon has depicted its undying desire and willingness to carry out investment trials and embracing the necessary elements required to stabilize their business equations.

## 6.2. Digital Commerce

The technological advancements have fought their way into the business world and thus resulting to the conformation of products dealt in and the services rendered by different entities. Moreover, these transformations have also influenced the service delivery modes for these businesses and also the mode of conducting their transactions. The end result has been an integrated and blended digital trading platform. The extensive array of goods and services that accompanies this digital format are channeled and connected through the digital means<sup>26</sup>. Therefore, the taxation of such intangibles becomes a complex issue for the authorities and the existing tax policies are rendered incompetent and merely inapplicable to these commodities.

The effects of this digital platform have influenced all the companies, industries and their operations. However, the most affected is the marketing industry. All marketing work is generally oriented towards realizing some revenue. By default, all the forms of digital marketing work make up the ecommerce<sup>27</sup>. The marketing roles have dramatically transformed as the days of static storefronts and also the concepts of shopping carts are long past to being an integrated and personal digital customer to retailer experiences. The current strategies span from the acquisition of a customer digitally to the retaining measures, all of which are managed using the marketing platforms<sup>28</sup>.

The digital commerce approaches were managed and carried out separately from the digital marketing activities. This might have seemed illogical but today it's even unheard of since marketing is the catalysts that

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<sup>24</sup> . Savchenko, V., 2015. Future Development of E-Commerce in Russia and Germany. M.Sc. Thesis, Polytechnic University of Valencia, Italy. 52pp. <https://riunet.upv.es/bitstream/handle/10251/55536/SAVCHENKO%20-%20Future%20Development%20of%20E-Commerce%20in%20Russia%20and%20Germany.pdf?sequence=4>

<sup>25</sup>Nielsen, N.V., 2014. E-commerce: Evolution or revolution in the fast-moving consumer goods world. *nngroup.com*.

<sup>26</sup>Chiu, C.M., Wang, E.T., Fang, Y.H. and Huang, H.Y., 2014. Understanding customers' repeat purchase intentions in B2C e-commerce: the roles of utilitarian value, hedonic value and perceived risk. *Information Systems Journal*, 24(1), pp.85-114.

<sup>27</sup>BUGHIN, J., JAUCH, S., Lund, S., MANYIKA, J., NOTTENBOHM, O., POULTER, D. and Ramaswamy, S., 2014. *Global flows in a digital age: How trade, finance, people, and data connect the world economy*. McKinsey Global Institute.

<sup>28</sup>Mohan, D., 2018. Is the global economy becoming more vulnerable to China's debt situation.

are responsible for engagement with the potential customers and purchase processes by these customers<sup>29</sup>. This approach explains the reasons for high expectation by the senior management personnel whenever the cost of marketing is high. According to the CMO Spent Survey carried out recently, the expectations of having many customers are indisputably increasing as per the current statistics when it comes to digital commerce. The digital commerce platform ranks as the third highest in the world in terms of the CEO expectations, where the respective chief marketing officers are required to bridge the existing gap between the companies' investments and the efforts employed towards the same.

Where physical goods are being involved, the obvious means of delivering the goods is by a courier or post system. The current digital platform however offers the opportunity for many other goods to be electronically delivered to their destinations. Some of the commodities that can be delivered using the online platforms include some computer software and images, moreover, due to the improvements of electronic goods transfer, products such as videos and music of high quality can be transferred from the producer to the consumer.

Moreover, many varieties of services are also offered in the digital platforms. This includes online databases. A customer can opt to access information via the Internet instead buying an encyclopedia. Therefore most customers would prefer such goods and services since they are more reliable and easy to acquire. A wide range of financial services has also employed the digital platform such as banking services, securities exchange and also accounting services et cetera.

In summary, the new era is characterized by companies directing their focus not only to the digital approaches but also business strategies that would effectively fit in this digital age. Due to the unique position by the technology companies, they are potentially able in ensuring that they own the mantle of ensuring that digital platform expands and performs well, in order to motivate all the stakeholders<sup>30</sup>. This implies that they have a sound understanding of the respective facets for the digital businesses and also incorporating the customers and other partners in this platform. Therefore, their position in this current world is highly enviable in this environment of constant changes. China in its own, has taken a good stance on transforming the commerce landscape by adopting a data driven strategy.

## **7. Arguments on E-Commerce Tax Policies**

The subject of whether ecommerce should be subjected to taxation remains a controversial issue among the policymakers with the topic being widely discussed in many forums in the early 2000s. Some of the policy makers had argued that the Internet alongside the ecommerce platform should not be taxed since it needs to develop unencumbered by the grips of taxation. However, the local governments and the states all over the world have established that there is a huge need to grow and protect the government revenues and thus the need to tax the Internet. Moreover, the government has in the past stressed the need to trim the branches and level the competition forum for all the businesses<sup>31</sup>. Therefore, for the debate concerning whether ecommerce and the Internet should be subjected to taxation is simply solved by the fact that ecommerce itself a business and thus like all other businesses, it should thus be taxed.

However, the choice to tax ecommerce also brings along some challenges as the government tries to establish new channels for raising revenue without manipulating the technological or economical approaches used. These channels need thorough assessment of the preferred government policies, in respect to their effectiveness in their application on ecommerce and other commercial practices, most of which were established with objectives entirely different focuses from the modern ones<sup>32</sup>. For example, the traditional procedures have an entirely different image towards commerce but their alteration without consideration can cause devastating commercial drawbacks.

The champions for a free-from-tax internet contend that internet fees and taxes cause the hikes in browsing rates and thus causing difficulties when accessing its services. Therefore, such a situation would

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<sup>29</sup>Turban, E., King, D., Lee, J.K., Liang, T.P. and Turban, D.C., 2015. Overview of electronic commerce. In *Electronic Commerce* (pp. 3-49). Springer, Cham.

<sup>30</sup>Chiu, C.M., Wang, E.T., Fang, Y.H. and Huang, H.Y., 2014. Understanding customers' repeat purchase intentions in B2C e-commerce: the roles of utilitarian value, hedonic value and perceived risk. *Information Systems Journal*, 24(1), pp.85-114.

<sup>31</sup>Malik, M.N., Khan, H.H., Chofreh, A.G. and Goni, F.A., 2017, April. Online Shopping Inventory Issues and Its Impact on Shopping Behavior: Customer View. In *International Conference of Reliable Information and Communication Technology* (pp. 804-811). Springer, Cham.

<sup>32</sup>Nishimura, Shogo. "The Research on Transition of the PE from Traditional Concept to the New Concept: Over the Avoidance of International Double Taxation" *Business and accounting research* 3 (2014): 49-56

hamper the growth and development of Internet use and also affecting related businesses such as ecommerce. In addition, these proponents refute the idea behind the requirement for all the ecommerce vendors to provide transactional taxes since this would result to some compliance costs with the multiple taxation authorities. Therefore according to the proponents, it would result to increased entry barriers for the small-scale new electronic businesses.

The advocates for subjecting the Internet to taxation view the situation from a perspective where the government would lose the tax revenue can be realized from the businesses. Moreover, these exponents support tax neutrality no matter the business model, that is, the bricks verse the clicks. As established by the tax advocates and what has stood out in many researches, acquiescence to the transactional taxes results to real revenue consequences to the respective government entities.

New taxes are being advocated internationally and in China in a time when the ecommerce environment is booming and the receipts for sales tax are really booming dramatically<sup>33</sup>. However, the international community has of late got the attention of the countries that are characterized by black ink destabilizing and thus resulted to analysis of their Internet policies on taxation. Indeed, there has been an alarming deficiency in budgetary justification when it comes to subjecting ecommerce to taxation and thus suggesting that the embargo became enacted not because of some underlying principles but due to the feeling by the tax writers that there lacks a stable administration for internet tax.

Most of the pro-tax drives argue that the shutting down of the existing loopholes would not result in new forms of taxes but would rather do away with the distortions present in the sales tax jurisprudence<sup>34</sup>. This would imply that the tax policies would not be biased and the consumers of online commodities would have the same shade of immunity by the state and international sales taxes. In conclusion, ecommerce should be liable to tax since the collection of taxes would also enable the government to abolish some leakages that have been observed in the recent years on underground economy.

## **8. Is E-Commerce Taxable?**

The quantities traded in the digital business forums continues to escalate and thus prompting states to divert their attention on whether to tax the new exploits by the business, how to enforce the taxes and the policies to regulate the correct amounts of taxes to be collected from each ecommerce entity. NCSL approximates that more than 11 billion dollar in 2012 for revenue went unrecalled due to the failure to collect the taxes incurred from online purchases<sup>35</sup>. This figure would be terribly huge now, as the digital platform has exploded dramatically over the last seven years with many businesses utilizing the flexibility of the online environment as a channel of retailing and proliferation of portable products like smart phones.

The globalization and development of the electronic businesses has enabled flexible and convenient shopping centers for customers. This explains the tripling of the retail sales carried out in the digital platform in the US, China and other states in the United Kingdom from the year 2005 to the present age. The aggregate market share in 2004 for the electronic businesses was 1.9% from the aggregate retail sales and by the year 2013, the electronic retails had exceeded 4%. Most companies are in the process of discovering the opportunities that can be utilized from electronic commerce and Internet presence. Hence, it is easily predictable that the portion of retail sales that will be claimed by the online sales would be unimaginably huge.

China has experienced the increasing interest from different investors around the world as it is considered as a hot market. This explains a scenario in which the purchase of a huge stake at Yihaodian Company was approved by the Chinese government in the year 2012 (as reported by Bloomberg report)<sup>36</sup>. The Shanghai located company was then estimated to be the leading enterprise in the online retailing business<sup>37</sup>. China is one of the countries that have seen a rapid growth in the ecommerce business in which more than 50% of the market growth was experienced between the years 2008 to 2010 and approximate of 25% of the growth being observed in the following year.

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<sup>33</sup>Wang, X.S., 2015. *The Chinese Economy in Crisis: State Capacity and Tax Reform: State Capacity and Tax Reform*. Routledge.

<sup>34</sup> <https://www.out-law.com/page-7512>

<sup>35</sup>Atanasov, A.D., 2017. Permanent Establishment 2.0-Is It Time for an Update?.

<sup>36</sup>Steiber, A., 2018. China's Entrepreneurial Companies—And What We Can Learn from Them. In *Management in the Digital Age* (pp. 67-92).Springer, Cham.

<sup>37</sup>Fatima, A., Abbas, A., Ming, W., Zaheer, A.N. and Akhtar, M.U.H., 2017. Analyzing the Academic Research Trends by Using University Digital Resources: A Bibliometric Study of Electronic Commerce in China. *Universal Journal of Educational Research*, 5(9), pp.1606-1613



The aggregate value of the digital market has been increasing by more than 50% year after year to almost 268.4 billion Yuan before the end of the year 2012 and since then to date; China has remained one of the countries with the highest potential of ecommerce markets. The ecommerce plans for the previous years starting from the year 2012 as announced by the government had indicated the government desire to develop the aggregate value of the ecommerce market to more than if not approximately 20 trillion Yuan in the next 5 to 10 years<sup>38</sup>. This market objective presented an opportunity for growth by the businesses within the Chinese sphere and a challenge to the government to make the target a reality. As some of the policy analysts may argue, the motive by the government was a significant catalyst into transforming China to becoming one of the adored ecommerce hubs. The statistics showing the commodities traded in the Chinese online market clearly represents the modern consumption trends of China<sup>39</sup>. The market has also being greatly influenced by the exponential booming of the middle-income class and thus the performance of some of the commodities is seen to be more successful than others.

The following figure shows the volume of the Chinese Online market by the year 2015; however, the statistics for the commodities is subject to change.

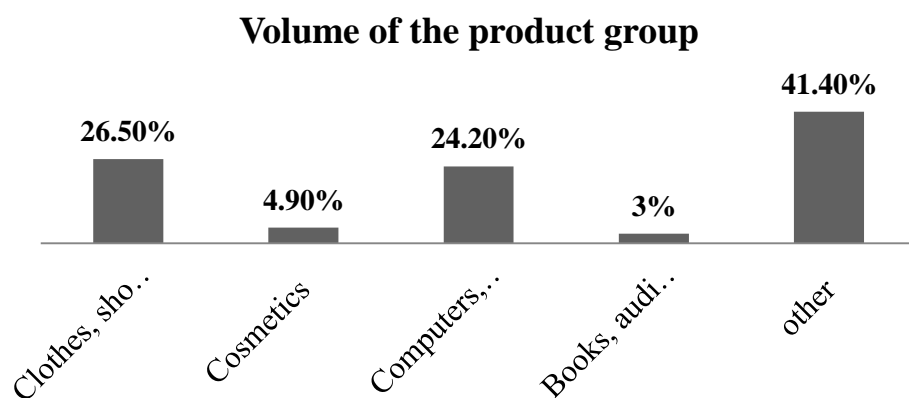


Figure 1: Diagram of the volume of the Chinese Online market by the year 2015<sup>40</sup>.

The Ottawa Taxation guidelines helped provide the conditions necessary for directing the government in their ecommerce approach. The principles also establish that the ecommerce business should be handled in a similar manner to the traditional business with no traces of discriminatory consideration between the two<sup>41</sup>. This taxation framework was received by the business community, non-member and member countries with the hope of transforming the state of the market.

The economy based on information sprout out towards the end of the 20<sup>th</sup> century and it is deemed to have been a good representation of the economic activities common in fully and semi industrialized nations<sup>42</sup>. The significance of ecommerce as a reliable business revenue source was discovered when the domestic revenue for most companies realized a significant benefit from the business. Therefore, the taxation on these transactions by these companies could generate substantial income for the government, both at local and national level.

The current population of ecommerce users is approximately 1002.8million and the revenue obtainable from the market is approximately 636,087 million dollar according to the 2018 report by the China Ecommerce Statistical website. The expected revenue growth rate annually between the years 2018 to 2022 is calculated to be 12% and would thus result to a market volume of about 1,014,965 million dollars before the end of the stipulated period. The largest market portion was claimed by the fashion and design industry being calculated to have a market volume of approximately \$246,877. However, the user penetration rate was 72% in the year 2018

<sup>38</sup>Chu, S.C., Lien, C.H. and Cao, Y., 2018. Electronic word-of-mouth (eWOM) on WeChat: examining the influence of sense of belonging, need for self-enhancement, and consumer engagement on Chinese travellers' eWOM. *International Journal of Advertising*, pp.1-24.

<sup>39</sup>Outlook, O.P.P., 2014. OECD Publishing.

<sup>40</sup><https://www.statista.com/statistics/246041/forecast-of-b2c-e-commerce-sales-in-china/>

<sup>41</sup>Pejić Bach, M., 2018.usage of social neuroscience in E-commerce research-current research and future opportunities. *Journal of theoretical and applied electronic commerce research*, 13(1), pp.i-iv.

<sup>42</sup>Kirby-Hawkins, E., Birkin, M. and Clarke, G., 2018.An investigation into the geography of corporate e-commerce sales in the UK grocery market. *Environment and Planning B: Urban Analytics and City Science*, p.2399808318755147.

and it is expected that by the year 2022 the rate would be approximately 80%. In addition, the average revenue generated per user was estimated to amount to \$ 634.

However, these approximations are contended to overestimate in their projections of the future sizes of the sales in the ecommerce and also underestimated in their estimation of the taxes and sales payment by the respective businesses. The above notation can be verified by the fact that the estimations by DMA lost in 2001 and their projections of the revenues in 2011.

### **9. Should E-Commerce Be Taxed**

Electronic commerce can be referred to the process in which computers are used in the facilitation of transactions that revolve around the processes such as manufacturing, distribution and also purchase of products in the market. Therefore, electronic commerce got divided into tangible products commerce which includes commodities such as computers, books; digitized content commerce such as games, videos, software; internet access commerce which is involved in telecommunications<sup>43</sup>. The terminology refers to the remote sales whereas ecommerce refers to the transactions that are undertaken across national boundaries and they are the ones that lead to the questions regarding the sovereignty of states and international authorities in enforcing constitutional taxation. Remote commerce to the traditional context refers to mail order according to most people. In addition it refers to the over the counter sales for the purpose of oversee shipment such as TV shopping. Ecommerce is however a non-traditional remote sale means. Therefore, as a principle matter, ecommerce should not be subjected to taxation. However, some assert that it should be subjected to tax also<sup>44</sup>.

Ecommerce can be observed from the perspective that it enables the authorities to transform the current day business models. Moreover, it is also calls for assessment of ecommerce at the international stage in order to implement the much-needed reforms.

From the definition of ecommerce, the activity is characterized by the application of computer networks. Therefore, businesses would use ecommerce to purchase goods and services, build on corporate consciousness and furnish customer services. Most individuals confuse between ecommerce and trading activities carried out through the Internet. However, the scope of the differences between the two is considerably great.

Ecommerce constitutes all forms of business activities pertaining the selling and buying of varieties of products, different kinds of digital information and services such as audios, software et cetera, all of which are carried out electronically through internet channels. The business environment initially required that there must be a permanent and tangible communication between the respective stakeholders that is the sellers and the buyers. However, the ecommerce platform provides for an electronic form in which the computer can easily identify, copy and then store hence implying that the business can be operated in a paperless environment. Therefore, the trading activities are carried out using an electronic media in which the buyer uses the sellers' electronic site to obtain the commodity in which he/she is interested<sup>45</sup>.

Therefore, the ecommerce results to the transaction of substantial volumes for goods and services by the providers and the consumers. The trade is carried out regardless of the distance proximity between the buyer and the seller and in most instances; the participators never get to meet. The products dealt in are digitized in a manner, in which they are represented and advertised in form of image, sound, video clips, software and even text form. In most occasions these trade is not concerned with tangible or physical products at all.

There are three forms of ecommerce models that have been described<sup>46</sup>. The first kind of ecommerce is the ones that have a physical presence but do not have a any internet establishment. Therefore, they only use the Internet platform to only advertise their commodities and not participate in any online transactional activities. The second model of ecommerce has integrated the offline physical establishment with also an online presence. This definition of this model implies that they have physical warehouses and also websites where they carry out

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<sup>43</sup>Báez, A. and Brauner, Y., 2018. Policy Options Regarding Tax Challenges of the Digitalized Economy: Making a Case for Withholding Taxes.

<sup>44</sup>Spinosa, L. and Chand, V., 2018. A Long-Term Solution for Taxing Digitalized Business Models: Should the Permanent Establishment Definition Be Modified to Resolve the Issue or Should the Focus Be on a Shared Taxing Rights Mechanism?. *Intertax*, 46(6), pp.476-494

<sup>45</sup>Ching, Y.M., Kasipillai, J. and Sarker, A., 2017. GST compliance and challenges for SMEs in Malaysia. *eJournal of Tax Research*, 15(3), pp.457-489.

<sup>46</sup>Lim, T.C. and Azhar, Z., 2017. A Review of the Opportunities, Risk and Challenges of E-Commerce Tax Administration in Malaysia and Other Selected Countries

the rest of transactions with overseas clients<sup>47</sup>. The last model of ecommerce model is the one that it is exclusively established in the online platform. They are commonly referred to as the ‘dot com companies.’

## 10. Tax Avoidance and Tax Evasion

Evasion of tax is one of the sophisticated and multidimensional problems facing many economies of the world. Tax avoidance is on the other hand misunderstood for tax cheating or dodging but it just signifies one’s legal financial means to reduce the amount of tax that he/she is liable to. As observed, there are a lot of reasons for trying to reduce the tax one is liable to or avoid one is required to pay. However, some of these measures to avoid or moreover reduce the amount of liable tax can be through illegal or semi-illegal means and this is what makes both tax avoidance and evasion seem as violation of tax codes<sup>48</sup>. Therefore, the two subject matters are considered as a representation of economic drawbacks. Since there are no explicit differences between the two subjects, one is supposed the practices, which abuse or violate the standards of tax law.

In general tax evasion is characterized by some illegal underpayment or absolute non-payment of the tax liable to an individual<sup>49</sup>. Therefore, the amounts of profits that are subject to taxation and also the related taxable events, which form the taxable income, escape taxation, the sources of those taxable incomes are concealed and the factors that reduce the amount of liable tax such as exemptions, deduction and credits are purposefully exaggerated<sup>50</sup>. However, tax evasion can emerge in some other isolated legal aspects unconsciously. Tax evasion is common in the informal sector of the economy, and in which the whole process of tax evasion is carried out in an informal manner and hence implying that the business involved in this heinous act is not enlisted as a formal business in the first place.

Tax avoidance on the other hand is carried out following some legal approaches inscribed by the tax system. However, it is perceived as an act in which firms and individuals make advantage of the tax systems by utilizing or ‘exploiting’ the available loopholes found in the tax code. The undertaken activities are within the legal context but overrun the scope of tax liability. Usually, avoidance of tax constitutes of special processes intended to reduce the amount of tax liable, an illustration of tax avoidance is seen where the financial affairs are planned so as cut the tax liabilities by ‘utilizing’ tax credits and deductions.

Most of the developed economies have established indirect and direct broad bases of tax, which cover wide areas in the firms and individuals’ activities. In contrast, the developing countries are characterized by financial systems that are confronted by administrative, social and majorly political overhauls and consequently face a lot of challenges when it comes to tax avoidance and evasion by ‘smart’ individual tax payers and enterprises. For this reason, most financial analysts refer to this problem as being the main cause for the inabilities observed when it comes to the mobilization of the countries’ available resources. Therefore, it is likely that the margin between the developing and the developed countries will as expected continue to widen (OECD MTC statistics)<sup>51</sup>.

Most of the OECD MTC states are observed to have tax revenues averaging to approximately to 36% of the countries’ gross income in the recent years. The share is however derived from few selected African countries and Latin America in a time span of five years. As most activists in China emphasize, It is ethical to avoid tax but rude to evade tax. The respective individuals can construct plans to buy municipal bonds, which are tax-free. Indeed China has implemented suitable tax incentives, which act as motives for Chinese to actively participate in international businesses as observed in Africa for example<sup>52</sup>.

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<sup>47</sup>Goh, P.J., Cham, T.H. and Tay, A.G.M., 2017. Consumers’ Perception Towards the implementation of Goods and Services Tax (GST) in Malaysia: A Review Paper

<sup>48</sup>Österman, R.P., 2019. Perspectives on Corporate Taxation from a Sustainable Business

Perspective. In *Challenges in Managing Sustainable Business* (pp. 371-397). Palgrave Macmillan, Cham.

<sup>49</sup>Santos, A.C.D. and Lopes, C.M., 2016. Tax Sovereignty, Tax Competition and the Base Erosion and Profit Shifting Concept of Permanent Establishment. *EC Tax Review*, 25(5), pp.296-311.

<sup>50</sup>Ismer, R. and Jescheck, C., 2018. Debate: Taxes on Digital Services and the Substantive Scope of Application of Tax Treaties: Pushing the Boundaries of Article 2 of the OECD Model?. *Intertax*, 46(6), pp.573-578

<sup>51</sup>Bergh, A., Dackehag, M. and Rode, M., 2017. Are OECD policy recommendations for public sector reform biased against welfare states? Evidence from a new database. *European Journal of Political Economy*, 48, pp.3-15

<sup>52</sup>Timmer, M.P., Dietzenbacher, E., Los, B., Stehrer, R. and De Vries, G.J., 2015. An illustrated user guide to the world input–output database: the case of global automotive production. *Review of International Economics*, 23(3), pp.575-605.

The Filnor Organization which is widely recognized for its efforts to offer administration services and confidential incorporation to the international corporate and private clients; established that no individual would want to pay any additional tax as it is necessary, and the respective governments getting even more bureaucratic and greedy. Therefore for this reason individual taxpayer's device every mean possible to escape the claws of the new tax regimes. As the organization states, it is not only the rich but also the less fortunate financially in a bid to establish survival means in those economies. At last, advocates for taxation condemn the practices as being immoral and selfish whereas the inordinate few refer it as call good financial planning in avoiding tax burden, and not tax evasion.

Most of the acknowledged US Senators and Law Lords in Britain have stated in the past that no person in any country can appreciate even the littlest obligation of any moral stance to build his legal relations to the wealth he/she owns so as to allow the tax authorities to extract anything from what he has amassed. The tax authorities though not slow, are also not rightly able to utilize every advantage under the tax statutes to extract from the pockets of the liable taxpayers<sup>53</sup>. The taxpayers on the other hand are as usual 'honestly shrewd to avoid or prevent' any possible depletion of their income<sup>54</sup>. Therefore, as the law lords establish, there is nothing evil looking to someone trying to put his house in order to keep the amounts of taxes liable possibly low. Hence, all do what seems right to survive the rough economic times, the poor and the rich. All individuals in any given country owe no authority to give more than the tax laws requires, taxes that are just enforced exactions by the state laws and not voluntary contributions by individuals.

However, the same individuals who are compelled to subject to tax authorities in the midst of tax evasion impropriety go to the extent to claim that it is the duty of the government to ensure that taxes are duly collected as much as it legally run<sup>55</sup>. In the above perspective of tax-base erosion, it can embrace the form of illegal evasion or even legal avoidance. When individual taxpayers avoid taxes in means that are illegal, it becomes evasion. Some of the cases include some misclassification of the expenses of a business, unpaid consumption taxes and also under-reporting of the income generated in a given financial year<sup>56</sup>. Additionally, taxes can be evaded or avoided by the individual taxpayers shifting the tax load to other jurisdictions (OECD MTC Outlook)<sup>57</sup>.

Some notable advancement in the modern technology especially in the transportation, communication and information sectors; the current liberalization of the existing financial and commercial transactions; have all rejuvenated the tax evasion and avoidance purview through the location choice of the business undertaken. In this extend, the functions of any business can be relocated to low-tax bank accounts and jurisdictions. In addition, other financial assets can often be kept offshore<sup>58</sup>. Financial savings can otherwise get shifted to any desired location around the globe in a matter of seconds in any number of times as desired. Industrial capital has also become highly mobile<sup>59</sup>.

This trend is supported by the fact that the business activities that require a telephone, a screen or a modem can be conducted from any part of the world and thus their location becoming very volatile. In return, it makes countries find it hard to impose more tax to investors more tax their competing economies. Of course it is not possible for all the companies to decamp from a high tax enforcing country but only some few companies might hesitate to migrate since the factor of tax might be too insignificant to adequately influence them to flee. However, it is expected that the developments that are awaited in electronic commerce might also make the consumption tax bases such as sales taxes and VAT even harder to unearth due to increased geographical mobility<sup>60</sup>. As it is obviously common to many businesses, the factors that influence the location of any business regardless of the form are uncountable; however, taxation stands out as a major factor.

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<sup>53</sup>Ismer, Roland, and ChristophJescheck. "Debate: Taxes on Digital Services and the Substantive Scope of Application of Tax Treaties: Pushing the Boundaries of Article 2 of the OECD Model?." *Intertax* 46.6 (2018): 573-578.

<sup>54</sup>(<http://www.hansa.net/faq.htm>)

<sup>55</sup>(<http://www.filnor.com/index.html>)

<sup>56</sup>(OECD Outlook)<http://www.oecd.org/tax/tax-policy/tax-and-digitalisation-policy-note.pdf>

<sup>57</sup>Ismer, Roland, and ChristophJescheck. "Debate: Taxes on Digital Services and the Substantive Scope of Application of Tax Treaties: Pushing the Boundaries of Article 2 of the OECD Model?." *Intertax* 46.6 (2018): 573-578.

<sup>58</sup>(OECD Outlook)<http://www.oecd.org/tax/tax-policy/global-revenue-statistics-database.htm>

<sup>59</sup>(OECD Outlook)<http://www.oecd.org/tax/tax-policy/global-revenue-statistics-database.htm>

<sup>60</sup>(OECD Economic Outlook, "Tax-base erosion", 2015)<http://www.oecd.org/tax/beps/beps-actions.htm>&<http://www.oecd.org/ctp/beps-reports-2015-executive-summaries.pdf>

As it stands out, tax evasion is one of the issues that tax authorities are finding it hard to control. The implications that would accompany the established tax rates on the activities revolving around tax evasion have been quantified by looking at China's relations between the tax gap and the scheduled tariffs<sup>61</sup>. The relations were defined based on the export reports by the authorities in Hong Kong to China and the import from Hong Kong reports by the Chinese authorities. The investigators came to a conclusion that an approximate of 1% increase in the observed tax rates was as a result of the 3% increase by tax evasion. In addition to their reports, the gap between tax evasion and tax rates was however negatively correlated on the closely associated products. This report indicates that the event of tax evasion occurred during the misclassification by the authorities of the imports to the ones that are low-taxed from the ones that are higher-taxed adding to the problem of the import values.

The tax administration in China were not well equipped and occasionally performed below international taxation standards in the increasingly developing and oriented market during the late years of the 20<sup>th</sup> century. The tax structure by then only constituted of only 35 varieties of taxes and as a result only managed to realize a very little amount of tax<sup>62</sup>. In addition to the woes in the tax department, only one tax agency was by then mandated to collect local and also the national taxes. The intra-governmental sharing of the revenue was also marred by sophisticated arrangements<sup>63</sup>. The circulars and the statutes, which set the powers for the tax authorities, did not have well defined legal standing. Another factor that caused the struggles was that the functions of the tax authorities were carried out manually and this resulted to tedious checking procedures which could satisfy the then increasing demands of China's economy. It is recorded that the tax system found it hard to be in compliance with economical taxation principles since the compliance expenses for the taxpayers and evasion were very high and this caused the tax yield to be less than 10% of the country's GDP.

From the rough experiences undergone by China and the threat by other developing and neighboring economies caused the state to implement notable progress in trying to establish tax administration that would compete with the 21<sup>st</sup> economic evolution<sup>64</sup>. The modern tax system in the country is observed to have at least 18 types of taxes, which have revenues clearly, apportioned between the local governments and the central government. The country also established distinct local and national tax agencies to undertake the duties of collecting taxes for the local and the central governments respectively. This established structures ensured that the arrangements for revenue apportioning were more effective and transparent.

The government has also codified the powers for the relevant authorities and also the rights of the individual taxpayers. In addition, the state has automated many of the administration activities on secured and well-established computer systems. The positive results for these relentless efforts by the government are evident as the Gross Domestic Product is approximately 20% and even more promising in the nearest future.

After overcoming the challenges faced by the old administration system, the country has however come to new crossroads that would easily plunge the country into a far-reaching consequence if not well handled<sup>65</sup>. The current economy has been subjected to a crucial restructuring; there are many advancements to the current tax system that are still underway, and only a relatively handful of gains have been realized from the tax administration that was operating before. Therefore, the country needs to carefully assess whether some new reforms to the existing tax administration are important. If it is necessary to have new implementations, what would be the new priorities after the reforms?

Despite the fact that the evasion phenomenon had not developed scary roots into the economy by then, their insights still echo loudly in the context of the modern China. They described tax evasion as the act in which individuals' practices regarding tax are in contravention of the set laws and regulatory policies in which he/she pays less or fails to pay tax at all of the amount he is bound to submit. They established that evasion includes an individuals' failure to fill a tax return or corporate' fail to reveal the income generated in their return. Tax avoidance then got defined as the practices protected by the law, in which the taxpayers' income which would otherwise contributed to the tax revenue is shifted to a different entity (company, persons such as

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<sup>61</sup>(OECD, 2014)<http://www.oecd.org/tax/tax-policy/tax-and-digitalisation-policy-note.pdf>

<sup>62</sup>(OECD Economic Outlook, "Geographical mobility of tax bases", 1998)&<http://www.oecd.org/ctp/beps-reports-2015-executive-summaries.pdf>

<sup>63</sup>Ismer, Roland, and Christoph Jescheck. "Debate: Taxes on Digital Services and the Substantive Scope of Application of Tax Treaties: Pushing the Boundaries of Article 2 of the OECD Model?." *Intertax* 46.6 (2018): 573-578.

<sup>64</sup> (OECD Economic Outlook, "Geographical mobility of tax bases", 2015)

<sup>65</sup>Kasper, M., Olsen, J., Kogler, C., Stark, J. and Kirchler, E., 2017 Individual attitudes and social representations of taxation, tax avoidance and tax evasion. In *The Routledge companion to tax avoidance research*(pp 289-303) Routledge

consumers) who actually are not the bona fides and who do not take time to make any consideration. Therefore, the aggregate tax payable becomes less when in regard to the incomes<sup>66</sup>.

Internationally recognized organizations such as OECD, EU and the FATF have actively taken measures to curb unhealthy tax competition OCFs and several tax havens<sup>67</sup>. These international bodies have embraced approaches such as categorizing tax evasion and avoidance as similar practices and thus making the presumptions that all the activities that are carried out a tax haven or any OFC must be oriented towards evasion and thus considered as crime in nature. However, tax avoidance observed in most tax havens is generally not a crime at all but the facts that these states do not tax any type of income, the international bodies avoid no tax!

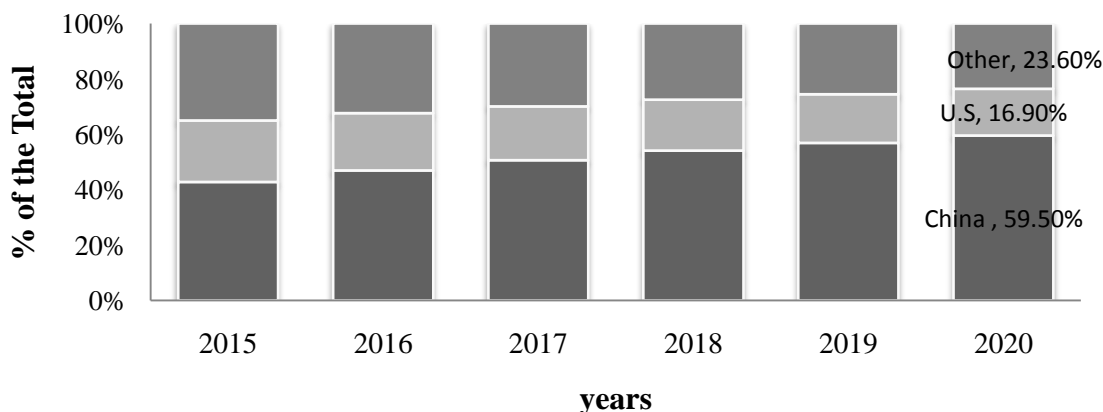
Reports indicate that efforts are underway though to extract reliable information from the respective tax havens by establishing treaties in mutual legal aids concerning criminal activities such as tax fraud<sup>68</sup>. Hence the exchange of the required information and matters regarding transparency ought to only be about activities that surround crime in tax collection. Illegal activities surrounding the remittance of tax are only caused by inadequate information exchange and transparency by the taxpayers. Therefore, according to the CFC rules, avoidance of tax is legal regardless of prior knowledge of an individual or not<sup>69</sup>. Hence the authorities mandated to enforce tax compliance need no timely or correct information so as to apply their tax laws.

The two crucial criteria, which are transparency and information in relation to the issue of avoidance is just a mere problem since it is nearly impossible for the individual country to timely detect and curb the application of foreign tax policies. In other words, it is merely impossible for the home state to enact laws and policies that would counter offshore investments<sup>70</sup>.

In conclusion, the growth and blooming of the digital economy without proper conventions and also international laws related to administer taxation in the profits realized by the businesses has paved way for the observed immense tax avoidance. It is indispensable that the development of ecommerce sales is plausibly fast. Half of the population in a recent market research admitted to purchasing products from the Internet.

The levels of the Ecommerce values in China started becoming impressive in the year 2015 according to some analysts in which the aggregate sales hit 13.5% of the total retail spending. Therefore, it is distinctively clear that the figures were 80% higher than the ones recorded by the US in 2015. The United States also recorded 11.8% of the aggregate retail sales, which was approximately 15% higher the initial years. More than 50% of the digital economy of the modern world is occupied by China and USA. Trillions of dollars that have been realized by these economies are characterized by tax leakage due to weak laws on tax<sup>71</sup>.

### Retail Ecommerce Sales Share Worldwide



<sup>66</sup>Basu, S., 2016. *Global perspectives on e-commerce taxation law* Routledge.

<sup>67</sup>Azam, R., 2017. Ruling the World: Generating International Tax Norms in the Era of Globalization and BEPS. *Suffolk UL Rev.*, 50, p.517.

<sup>68</sup>Martin Hearson, 2014. Tax-motivated illicit financial flows: A guide for development practitioners.pp58.

<sup>69</sup>Becker, Johannes, E. Reimer, and A. Rust. *Klaus Vogel on Double Taxation Conventions*.Kluwer Law International, 2015.

<sup>70</sup>Jose,A,2018. International tax cooperation and sovereign debt crisis resolution: reforming global governance to ensure no one is left behind. pp 21.

<sup>71</sup>Santos, António Carlos dos, and CidáliaMotaLopes."Tax Sovereignty, Tax Competition and the Base Erosion and Profit Shifting Concept of Permanent Establishment." *EC Tax Review* 25.5 (2016): 296-311

Figure 2: Diagram: Retail ecommerce sales<sup>72</sup>

However when these values of these two economic giants are compared to the cost incurred in managing the effects of tax evasion, the US appears to suffer more than her counterpart China<sup>73</sup>. These statistics can tempt an individual to suggest that the Chinese government has more stable measures in curbing tax evasion.

### The Global Cost of Tax Avoidance (US billion dollars)

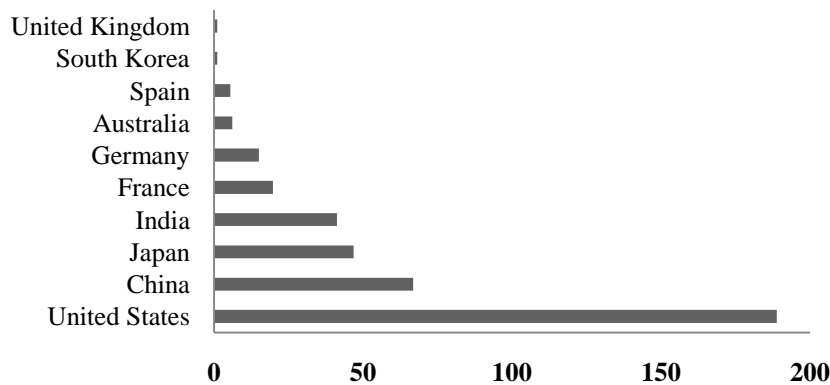


Figure 3: Diagram: Global Cost of Tax Avoidance<sup>74</sup>

The estimations by EU commission revealed that leaks and losses of revenues generated from tax were approximately 60 billion euro in a span of one year (European Commission). It was no surprise when the Canadian government confirmed that it had incurred a loss of 1.27 billion CAD (approximately \$ 972 million) of ecommerce tax revenue in imports alone<sup>75</sup>. The economy threats will continue to escalate as long as the taxation treaties will still be vulnerable to contravention. In addition, digital evolution is quickly taking toll among the developing nations and thus the extent of ecommerce remains unpredictable and scary by the tax authorities especially the advancements in 3D printing and robotic technology.

Some nations have attempted to make the profits realized from ecommerce as being attributable to tax, surmising that the respective server in electronic commerce will establish permanent establishment. However the existing permanent establishment definition remains inappropriate for the sever services seen today<sup>76</sup>. In addition, OECD MTC treaty regarding the subjection of business profits to tax is not applicable to the profits generated in the ecommerce platform. In respect to the initial assumptions, the above ambiguity in the policies is the main cause of double taxation on the businesses that participate in the electronic commerce platform.

In a nutshell, the predictability in technological advancements will remain unascertainable as long as businesses view electronic commerce as a hot source for profit generation. However, the formulation of international and domestic rules on taxation appears to be requisite in order to circumvent double taxation and tax leaks<sup>77</sup>.

### Conclusion

This paper discovered that there are various tax models preferences by different tax authorities that are highly dependent on the local factors that the administration undertakes its duties. The issue of tax competition

<sup>72</sup> <https://www.mckinsey.com/featured-insights/china/chinas-digital-economy-a-leading-global-force>

<sup>73</sup> Shier, E. (2014). Online Shopping Spree in China. Alberta Canada

<sup>74</sup> <https://www.statista.com/chart/8668/the-global-cost-of-tax-avoidance/>

<sup>75</sup> Reimer, Ekkehart, Stefan Schmid, and Marianne Orell, eds. *Permanent establishments: a domestic taxation, bilateral tax treaty and OECD perspective*. Kluwer Law International BV, 2018.

<sup>76</sup> Nishimura, Shogo. "The Research on Transition of the Permanent Establishment from Traditional Concept to the New Concept: Over the Avoidance of International Double Taxation" *Business and accounting research* 3 (2014): 49-56.

<sup>77</sup> Markus Susilo, E-commerce and VAT: How it will impact business model, Industry Insight, Dubai, 03 June 2017, <https://www.khaleejtimes.com/technology/e-commerce-and-vat-how-it-will-impact-business-model>

is another critical concern that the paper has established as being one of the reasons various governments miss on gathering the genuine tax revenue.

After evaluating the state of taxation systems around the world; the paper acknowledges the fact that some significant work has been undertaken towards the same. The OECD MTC has come up with some policies and principles that have tried to harmonize the tax disparities. However, there are some arguments that the measures that have been established by the OECD MTC in this decade are very soft in handling the taxation malpractices; the otherwise is entirely impossible, as most countries would not wish to surrender their tax sovereignty to the organization in the future.

Retaliation has proved to be one of the tools that can solve the issues surrounding the enforcement of the taxation policies across the borderless businesses. Since the current treaty adaption methods have initiated a strategy to involve the developing nations; the results of the taxation enforcements have started bearing some positive results. Hence it is expected that through these constructive strategies, the OECD MTC will keep on being a legitimate taxation body internationally.

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